

WATERLOO TOWNSHIP
JACKSON COUNTY - MICHIGAN
38-190
FINANCIAL STATEMENTS
Year Ended June 30, 2004

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Waterloo Township	County JACKSON
Audit Date 6/30/04	Opinion Date 10/14/04	Date Accountant Report Submitted to State: 1/20/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, in the report of comments and recommendations.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGR).			✓

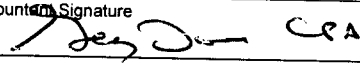
Certified Public Accountant (Firm Name) DOVE & HICKEY, P.L.C.			
Street Address 209 E. WASHINGTON AVE., STE 255		City JACKSON	State MI
Accountant's Signature 		ZIP 49201	Date 1/20/05

TABLE OF CONTENTS

	<u>PAGE</u>
REPORT OF CERTIFIED PUBLIC ACCOUNTANTS	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2 - 5
BASIC FINANCIAL STATEMENTS:	
Government-wide Financial Statements:	
Statement of Net Assets	6
Statement of Activities	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	8
Statement of Revenue, Expenditures, and Changes in Fund Balances	9
Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities	10
Fiduciary Funds - Statement of Net Assets	11
Notes to Financial Statements	12 - 19
REQUIRED SUPPLEMENTAL INFORMATION:	
Budgetary Comparison Schedule - General Fund	20
Budgetary Comparison Schedule - Public Safety Fund	21
OTHER SUPPLEMENTAL INFORMATION:	
Fiduciary Funds:	
Combining Statement of Assets and Liabilities	22
Combining Statement of Changes in Assets and Liabilities	23

Dove & Hickey, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

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GEORGE DOVE, C.P.A.
PAUL T. HICKEY, C.P.A.
NANNETTE M. SPONSER, C.P.A.
ALLISON I. COLE, C.P.A.

INDEPENDENT AUDITOR'S REPORT

Township Board
Waterloo Township
Jackson County, Michigan

We have audited the accompanying financial statements of the governmental activities, and each major fund information of Waterloo Township as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Waterloo Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, and each major fund information of Waterloo Township as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 8 the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of June 30, 2004.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Waterloo Township's basic financial statements. The combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dove & Hickey, P.L.C.

October 14, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

WATERLOO TOWNSHIP MANAGEMENT'S DISCUSSION AND ANALYSIS

The management of Waterloo Township is offering the readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the year ended June 30, 2004. Please read it in conjunction with the Township's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2004.

- The assets of the Township exceeded the liabilities of the Township at the close of the fiscal year by \$407,456. Of this amount, \$317,719 is unrestricted and available for use to meet the Township's ongoing obligations to its citizens and creditors.
- The Township's total net assets have decreased by \$51,521.
- The Township has no bonded indebtedness as of June 30, 2004.
- The General Fund balance of \$314,636 represents 96.7% of the Township's total assets of \$325,492.
- A significant increase of \$52,444 (74.5%) in fire and rescue protection costs contributed to the decline in net assets.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of the government-wide financial statements, the fund financial statements and the notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private sector business. The statement of net assets presents the Township's assets and liabilities with the difference reported as the net assets of the Township. The statement of activities presents a summary of the revenues and expenditures for the fiscal year ended June 30 the difference of which results in the change in net assets for the year.

Financial Highlights (Continued)

The statement of revenues and expenditures provides an overall summary of the sources of revenues and the expenditures supported by the General Fund and those supported other funding.

The Fiduciary Fund statement of assets represents the funds received as a deposit toward the reclamation of a local gravel operation.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over the resources that have been segregated for specific activities and objectives. The Township, like other state and local governments, use fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: General Governmental Funds, Special Revenue Funds and Fiduciary or Agency Funds.

The Township adopts an annual budget for its General and Special Revenue Funds.

Notes to the Financial Statements

The notes to the financial statements are intended to provide additional information that is essential to a reasonable understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 - 19 of this report.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

Waterloo Township as a Whole

The following table shows a condensed format of the net assets as of June 30, 2004. The management's discussion and analysis will present a comparative statement of net assets next year when we have two years of statements in this new format:

	GOVERNMENTAL ACTIVITIES
ASSETS	
Current and Other Assets	\$ 328,585
Non-current - Capital Assets	89,737
TOTAL ASSETS	418,322
LIABILITIES	
Other liabilities	10,866
TOTAL LIABILITIES	10,866
NET ASSETS	
Invested in capital assets	89,737
Unrestricted	317,719
Restricted	-0-
TOTAL NET ASSETS	\$407,456

The Township's combined net assets for both governmental activities total \$407,456 for fiscal year 2004. Net assets are segregated between restricted and unrestricted net assets. The restricted net assets, assets that are restricted and invested in capital assets, total \$89,737. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations, total approximately \$317,719.

The following table shows the change in net assets for the year ended June 30, 2004.

	GOVERNMENTAL ACTIVITIES
REVENUE	
Program revenue:	
Charges for services	\$118,252
Operating grants and contributions	26,804
General Revenue:	
Property taxes	187,949
State-shared revenues	211,401
Interest	3,948
Miscellaneous	8,732
TOTAL REVENUE	557,086
EXPENSES	
General government	278,198
Public Safety	330,409
TOTAL EXPENSES	608,607
CHANGE IN NET ASSETS	(\$ 51,521)

Governmental Activities

The Township's activities have not changed significantly from the prior year. However, some changes have occurred in the level of revenues and expenses from the year ended June 30, 2003. A reduction of in State Revenue Sharing occurred due to reductions implemented by the State. The reduction to the Township was minimal in comparison to other local governing bodies. As a result of a reduction in the gravel extraction application requirements the extraction revenues were reduced \$21,581. The police contract reimbursement, primarily attributed to contract coverage in Coachmen's Cove Trailer Park, increased \$4,448. Tax revenues and Public Safety revenues remained relatively unchanged.

The primary expenses of the Township are general expenses and Public Safety expense. The Public Safety Fund has no fund balance as its excess of expenditures over revenues is financed by the General Fund. Public Safety revenues were \$153,836. Revenues consisted of \$73,122 of tax revenues, \$26,804 of federal and local police grant monies, \$34,727 of reimbursement revenues, \$17,441 of revenues from fines and \$1,742 of miscellaneous revenues. The Public Safety expense totaled \$330,409 or 54.3% of the \$608,607 of the total expenditures. During the year the revenue short fall covered by the General Fund was \$136,034. The short fall for fire protection was \$85,888 and for police protection it was \$50,146. Without a reduction in Public Safety cost or an increase in revenues Public Safety cost will continue to burden the general operating funds of the Township.

Budgetary Highlights

Over the course of the year, the Township Board monitors the budget, and if necessary, amends the budget to take into account anticipated events that occur during the year. The Township Board decreased the original budgeted expenditures by approximately \$55,200 during the year.

Capital Asset

At the end of fiscal year 2004, the Township had \$89,737 invested in capital assets (land, buildings, equipment and vehicles). These assets are necessary to carry out the day-to-day operations of the Township.

Contacting the Township's Management

The financial report is intended to provide a general overview of the Township's finances. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

WATERLOO TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
Year Ended June 30, 2004

	<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$249,795
Receivables	78,790
Capital assets - net	<u>89,737</u>
Total assets	<u>418,322</u>
<u>LIABILITIES</u>	
Accounts payable	10,243
Accrued and other liabilities	<u>623</u>
Total liabilities	<u>10,866</u>
<u>NET ASSETS</u>	
Invested in capital assets	89,737
Unrestricted	<u>317,719</u>
Total net assets	<u>\$407,456</u>

See accompanying notes to financial statements.

WATERLOO TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		Net (Expense)
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	Revenue and Changes in Net Assets
				<u>Governmental Activities</u>
GOVERNMENTAL ACTIVITIES:				
General government	\$278,198	\$ 66,084	\$ -0-	(\$212,114)
Public Safety	<u>330,409</u>	<u>52,168</u>	<u>26,804</u>	<u>(251,437)</u>
Total governmental activities	<u>\$608,607</u>	<u>\$118,252</u>	<u>\$ 26,804</u>	<u>(463,551)</u>
GENERAL REVENUES:				
Property taxes				\$187,949
State-shared revenues				211,401
Investment earnings				3,948
Miscellaneous				<u>8,732</u>
Total general revenues				<u>412,030</u>
CHANGES IN NET ASSETS				(51,521)
NET ASSETS - BEGINNING OF YEAR, AS RESTATED				<u>458,977</u>
NET ASSETS - END OF YEAR				<u>\$407,456</u>

See accompanying notes to financial statements.

WATERLOO TOWNSHIP
GOVERNMENTAL FUNDS -
BALANCE SHEET
June 30, 2004

<u>ASSETS</u>	<u>GENERAL FUND</u>	<u>PUBLIC SAFETY FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
Cash and cash equivalents	\$249,795	\$ -0-	\$249,795
Due from other governments	74,388	-0-	74,388
Receivables	<u>1,309</u>	<u>-0-</u>	<u>1,309</u>
Total assets	<u>\$325,492</u>	<u>\$ -0-</u>	<u>\$325,492</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 10,243	\$ -0-	\$ 10,243
Accrued and other liabilities	<u>623</u>	<u>-0-</u>	<u>623</u>
Total liabilities	<u>10,866</u>	<u>-0-</u>	<u>10,866</u>
Fund Balances:			
Unreserved/undesignated	<u>314,626</u>	<u>-0-</u>	<u>314,626</u>
Total fund balances	<u>314,626</u>	<u>-0-</u>	314,626
Total liabilities and fund balances	<u>\$325,492</u>	<u>\$ -0-</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund	89,737
Certain receivables, such as in lieu of taxes, were not available to pay for current year expenditures and therefore were not reported in the funds:	
Add: Property taxes receivable	<u>3,093</u>
Net assets of governmental activities	<u>\$407,456</u>

See accompanying notes to financial statements.

WATERLOO TOWNSHIP
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
Year Ended June 30, 2004

	<u>GENERAL FUND</u>	<u>PUBLIC SAFETY FUND</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:			
Property taxes	\$111,734	\$ 73,122	\$184,856
Licenses and permits	66,084	-0-	66,084
State shared revenue	211,401	-0-	211,401
Charges for services	-0-	34,727	34,727
Fines and forfeitures	-0-	17,441	17,441
Interest	3,948	-0-	3,948
Federal grants	-0-	24,402	24,402
State grants	-0-	2,402	2,402
Miscellaneous	<u>6,990</u>	<u>1,742</u>	<u>8,732</u>
Total revenues	<u>400,157</u>	<u>153,836</u>	<u>553,993</u>
EXPENDITURES:			
Current:			
General government	299,314	-0-	299,314
Public Safety	<u>136,034</u>	<u>153,836</u>	<u>289,870</u>
Total expenditures	<u>435,348</u>	<u>153,836</u>	<u>589,184</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(35,191)	-0-	(35,191)
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	<u>349,817</u>	<u>-0-</u>	<u>349,817</u>
FUND BALANCE - END OF YEAR	<u>\$314,626</u>	<u>\$ -0-</u>	<u>\$314,626</u>

See accompanying notes to financial statements.

WATERLOO TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGE IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2004

Net change in fund balances - total governmental funds	(\$ 35,191)
Amount reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.	(19,423)
In lieu of property taxes were not received within 60 days of year end and therefore not reported as revenue in the funds.	<u>3,093</u>
Change in net assets of governmental activities	(\$ <u>51,521</u>)

See accompanying notes to financial statements.

WATERLOO TOWNSHIP
FIDUCIARY FUNDS -
STATEMENT OF NET ASSETS
June 30, 2004

FIDUCIARY
FUND TYPES
TRUST AND AGENCY

ASSETS

Cash and cash equivalents	\$ <u>25,000</u>
Total assets	<u>25,000</u>

LIABILITIES

Performance bond	\$ <u>25,000</u>
Total liabilities	<u>25,000</u>

NET ASSETS

\$ -0-

See accompanying notes to financial statements.

WATERLOO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Waterloo Township (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Waterloo Township.

Reporting Entity

Waterloo Township is governed by an elected five-member Board of Trustees. The accompanying financial statements present the Township's entities for which the Township is considered to be financially accountable. The Township has no component units.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

WATERLOO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Capital Assets - Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB No. 34 requires the Township to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, traffic signals, etc. The Township has elected not to report major general infrastructure assets retroactively.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings	50 years
Furnishings, vehicles, and equipment	5 to 10 years

Receivables - Receivables in governmental activities are all primarily due from other governments. No allowance for doubtful accounts is provided for.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

WATERLOO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

General Fund - The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Public Safety Fund - The Public Safety Fund accounts for the use of property taxes received under a specially voted millage.

Additionally, the Township reports the following fund types:

Agency Funds - The Agency Funds account for assets held by the Township in an agency capacity.

WATERLOO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General and Special Revenue Funds. All annual appropriations lapse at fiscal year end. Before June 1, the proposed budget is submitted to the Township Board for review. Public hearings are held, and a final budget is adopted no later than June 30. The Township Board must approve any budget amendments.

The appropriated budget is prepared by fund, activity, and line items. The legal level of budgetary control is the activity level.

The government does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations - P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2004, the government incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control as follows:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Township Board	\$ 13,250	\$ 14,068	(\$ 818)
Board of Appeals	1,550	1,758	(208)
Cemetery	2,500	3,350	(850)

Legal Non-Compliance - The Township did not approve its budget within the time specified by State statute.

Construction Code Fees - The Township oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Township charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall at June 30, 2003	(\$ <u>17,603</u>)
Current year building permit revenue	<u>46,293</u>
Related expenses:	
Direct costs	<u>50,766</u>
Total construction code expenses	<u>50,766</u>
Cumulative shortfall at June 30, 2004	(\$ <u>22,076</u>)

WATERLOO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classification which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in the instruments approved by the State statutory authority as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

At year end, the Township's deposits and investments were reported in the basic financial statements under the heading of cash and cash equivalents as follows:

Governmental activities	\$249,795
Fiduciary Funds	<u>25,000</u>
Total government	<u>\$274,795</u>

The bank balance of the Township's deposits is \$288,188 of which \$121,762 is covered by federal depository insurance.

Investments are categorized into these three categories of credit risk:

1. Insured or registered, or securities held by the Township or its agent in the Township's name.
2. Uninsured and unregistered, with the securities held by the counterparty's trust department or agent in the Township's name.
3. Uninsured and unregistered, with the securities held by the counterparty or by its trust department or agent but not in the Township's name.

At June 30, 2004, the Township had no category 1-3 risk investments.

WATERLOO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

4. CAPITAL ASSETS

Capital asset activity of the Township's governmental activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ <u>3,153</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>3,153</u>
Capital assets being depreciated:				
Buildings and improvements	120,838	-0-	-0-	120,838
Furnishings, vehicles, and equipment	<u>128,287</u>	<u>-0-</u>	<u>12,200</u>	<u>116,087</u>
Total capital assets being depreciated	<u>249,125</u>	<u>-0-</u>	<u>12,200</u>	<u>236,925</u>
Less: accumulated depreciation:				
Buildings and improvements	64,902	2,761	-0-	67,663
Furnishings, vehicles, and equipment	<u>78,216</u>	<u>16,662</u>	<u>12,200</u>	<u>82,678</u>
Total accumulated depreciation	<u>143,118</u>	<u>19,423</u>	<u>12,200</u>	<u>150,341</u>
Total capital assets being depreciated - net	<u>106,007</u>	<u>(19,423)</u>	<u>-0-</u>	<u>86,584</u>
Total capital assets - net	<u>\$109,160</u>	<u>(\$ 19,423)</u>	<u>\$ -0-</u>	<u>\$ 89,737</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 7,695
Public Safety	<u>11,728</u>
Total governmental activities	<u>\$ 19,423</u>

WATERLOO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

5. RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. During the year ended June 30, 2004, the Township carried commercial insurance to cover all risks of losses. The Township has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

6. PROPERTY TAX

Property taxes are levied on each December 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time they are added to the county tax rolls.

The Township's 2003 tax is levied and collectible on December 1, 2003, and is recognized as revenue in the year ended June 30, 2004, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2003 taxable valuation of the Township totaled \$85,124,697 on which ad valorem taxes levied consisted of .8802 mills for operating purposes, and .8861 mills for police and fire services. This resulted in \$74,609 for operating, and \$73,122 for police and fire services. These amounts are recognized in the General Fund and Public Safety financial statements as tax revenue (net of reductions for delinquent amounts and prior year tax tribunal changes).

7. LEASES

The Township leases a module office. The lease is recorded as an operating lease. Total rental expense under the operating lease agreement for the year ended June 30, 2004, is \$4,699.

WATERLOO TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2004

8. ACCOUNTING AND REPORTING CHANGE

As of and for the year ended June 30, 2004, the Township implemented Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Waterloo Township has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement the general provisions of the statement in the current year. Certain significant changes in the statement include the following:

- A management's discussion and analysis section providing an analysis of the Township's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Township's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted to reflect the historical cost of the Township's capital assets at the date.

As a result of implementing GASB 34 for the fiscal year ended June 30, 2004, the following restatements were made to the net asset accounts:

Government-wide Financial Statements - Beginning net assets for governmental activities was determined as follows:

Equity at June 30, 2003, as previously reported	\$315,705
Effect of recognized state-shared revenue received within 60 days of year end	34,112
Effect of recording full accrual information on the government-wide statements:	
Capital assets	<u>109,160</u>
Net assets - July 1, 2003	<u>\$458,977</u>

REQUIRED SUPPLEMENTAL INFORMATION

WATERLOO TOWNSHIP
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
Year Ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
REVENUES:				
Property taxes	\$108,500	\$108,500	\$111,734	\$ 3,234
Licenses and permits	64,000	64,000	66,084	2,084
State shared revenue	215,000	215,000	211,401	(3,599)
Interest	4,000	4,000	3,948	(52)
Miscellaneous	<u>2,500</u>	<u>2,500</u>	<u>6,990</u>	<u>4,490</u>
Total revenues	<u>394,000</u>	<u>394,000</u>	<u>400,157</u>	<u>6,157</u>
EXPENDITURES:				
Current:				
Township Board	14,200	13,250	14,068	(818)
Supervisor	14,000	14,175	14,028	147
Assessor	28,300	31,100	30,552	548
Elections	5,900	3,200	1,920	1,280
Clerk	17,220	19,495	18,979	516
Attorney	12,250	19,250	17,761	1,489
Treasurer	17,630	17,830	17,239	591
Township hall	186,600	133,300	9,737	123,563
Board of Review	4,500	3,100	2,769	331
Board of Appeals	2,550	1,550	1,758	(208)
Building Authority	46,400	52,200	50,766	1,434
Highways, streets and bridges	54,800	39,800	37,503	2,297
Planning	16,800	16,900	16,530	370
Land splits	1,300	2,800	2,015	785
Zoning	23,700	17,000	8,789	8,211
Public Safety	136,034	136,034	136,034	-0-
Cemetery	3,500	2,500	3,350	(850)
Insurance	25,000	32,000	31,875	125
Social Security	<u>20,000</u>	<u>20,000</u>	<u>19,675</u>	<u>325</u>
Total expenditures	<u>630,684</u>	<u>575,484</u>	<u>435,348</u>	<u>140,136</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(236,684)	(181,484)	(35,191)	146,293
FUND BALANCE - BEGINNING OF YEAR, AS RESTATED	<u>349,817</u>	<u>349,817</u>	<u>349,817</u>	<u>-0-</u>
FUND BALANCE - END OF YEAR	<u>\$113,133</u>	<u>\$168,333</u>	<u>\$314,626</u>	<u>\$146,293</u>

See accompanying notes to financial statements.

WATERLOO TOWNSHIP
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE -
PUBLIC SAFETY FUND
Year Ended June 30, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
REVENUES:				
Property taxes	\$ 69,000	\$ 69,000	\$ 73,122	\$ 4,122
Licenses and permits	-0-	-0-	-0-	-0-
State shared revenue	-0-	-0-	-0-	-0-
Charges for services	29,000	29,000	34,727	5,727
Fines and forfeitures	17,500	17,500	17,441	(59)
Interest	25,000	25,000	24,402	(598)
State grants	2,000	2,000	2,402	402
Miscellaneous	-0-	-0-	1,742	1,742
Total revenues	<u>142,500</u>	<u>142,500</u>	<u>153,836</u>	<u>11,336</u>
EXPENDITURES:				
Current:				
Public Safety	<u>107,916</u>	<u>163,116</u>	<u>153,836</u>	<u>9,280</u>
Total expenditures	<u>107,916</u>	<u>163,116</u>	<u>153,836</u>	<u>9,280</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	34,584	(20,616)	-0-	20,616
FUND BALANCE - BEGINNING OF YEAR	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
FUND BALANCE - END OF YEAR	\$ <u>34,584</u>	(\$ <u>20,616</u>)	\$ <u>-0-</u>	\$ <u>20,616</u>

See accompanying notes to financial statements.

OTHER SUPPLEMENTAL INFORMATION

WATERLOO TOWNSHIP
FIDUCIARY FUNDS -
COMBINING STATEMENT OF ASSETS AND LIABILITIES
June 30, 2004

	<u>AGENCY FUNDS</u>		
	<u>TRUST AND AGENCY</u>	<u>CURRENT TAX COLLECTIONS</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash	\$ <u>25,000</u>	\$ <u>-0-</u>	\$ <u>25,000</u>
Total assets	\$ <u>25,000</u>	\$ <u>-0-</u>	\$ <u>25,000</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Performance bond	\$ <u>25,000</u>	\$ <u>-0-</u>	\$ <u>25,000</u>
Total liabilities	<u>25,000</u>	<u>-0-</u>	<u>25,000</u>
Fund Balance	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total liabilities and fund balance	\$ <u>25,000</u>	\$ <u>-0-</u>	\$ <u>25,000</u>

See accompanying notes to financial statements.

WATERLOO TOWNSHIP
FIDUCIARY FUNDS -
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year Ended June 30, 2004

<u>CURRENT TAX COLLECTION FUND</u>				
	<u>BALANCE</u> <u>7/1/03</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>6/30/04</u>
<u>ASSETS</u>				
Cash	\$ -0-	\$2,483,891	\$2,483,891	\$ -0-
Total assets	\$ -0-	\$2,483,891	\$2,483,891	\$ -0-
 <u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Due to other funds	\$ -0-	\$ 160,631	\$ 160,631	\$ -0-
Due to county	-0-	1,005,888	1,005,888	-0-
Due to schools	-0-	1,303,809	1,303,809	-0-
Due to others	-0-	13,563	13,563	-0-
Performance bond	-0-	-0-	-0-	-0-
Total liabilities	-0-	2,483,891	2,483,891	-0-
Fund balance	-0-	-0-	-0-	-0-
Total liabilities and fund balance	\$ -0-	\$2,483,891	\$2,483,891	\$ -0-

See accompanying notes to financial statements.

TRUST AND AGENCY FUND

<u>BALANCE</u> <u>7/1/03</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>6/30/04</u>	<u>TOTAL</u>
\$ <u>25,000</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>25,000</u>	\$ <u>25,000</u>
\$ <u>25,000</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>25,000</u>	\$ <u>25,000</u>
\$ -0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-
-0-	-0-	-0-	-0-	-0-
<u>25,000</u>	<u>-0-</u>	<u>-0-</u>	<u>25,000</u>	<u>25,000</u>
<u>25,000</u>	<u>-0-</u>	<u>-0-</u>	<u>25,000</u>	<u>25,000</u>
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
\$ <u>25,000</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>25,000</u>	\$ <u>25,000</u>

Dove & Hickey, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

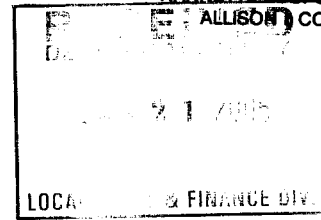
209 E. Washington Ave., Suite 255 • Jackson, Michigan 49201
Phone (517) 796-8880 • Fax (517) 796-8777

MEMBERS:

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

MICHIGAN ASSOCIATION OF
CERTIFIED PUBLIC ACCOUNTANTS

GEORGE DOVE, C.P.A.
PAUL T. HICKEY, C.P.A.
NANNETTE M. SPONSLER, C.P.A.
ALLISON D. COLE, C.P.A.



October 14, 2004

Township Board
Waterloo Township
Jackson County, Michigan

Board Members:

We have recently completed our audit of the financial statements of Waterloo Township for the year ended June 30, 2004. In addition to the audit report, we offer the following comments and suggestions for your consideration.

In planning and performing our audit of the financial statements of Waterloo Township for the year ended June 30, 2004, we considered its internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated October 14, 2004, on the financial statements of Waterloo Township. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be please to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Budget Adoption

According the Uniform Budgeting and Accounting Act., P.A. 2 of 1968, as amended by P.A. 621 of 1978, a general law township must adopt a budget prior to disbursing funds. The Township did not formally adopt it's 2004 budget until December 2003. We suggest that the Township in the future adopt their budget on or before July 1.

The final amended budget for the Police Fund had a deficit. This is contrary to the State Budgeting Act which requires a balanced budget be adopted.

Budget Amendments

P.A. 621 of 1978, as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The Township incurred expenditures in excess of amounts appropriated in three activities: General Fund – Township Board (\$818), General Fund – Board of Appeals (\$208), and General Fund – Cemetery (\$850). The Township should amend its budget before this occurs.

Disbursements

MCL 41.76 requires the Township Board to authorize any payments of township money. According to the State of Michigan's Uniform Accounting Procedures Manual, "All disbursements must be approved by the legislative body prior to disbursement unless addressed otherwise in the charter. The legislative body may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). This policy must be very limited and a list of payments made prior to approval must be presented to the legislative body for approval." The Township is currently paying virtually all of their bill prior to the board meetings, without a formal policy authorizing the specific payments allowable.

During the audit we were unable to examine all the invoices that we requested. We suggest in the future, more care is taken to ensure that all invoices are retained in an orderly manner.

Cash Performance Bond

We noted during our audit that the Township holds an old cash performance bond. We suggest that the Township investigate the status of the old cash performance bond to determine whether amounts need to be refunded to appropriate parties, whether they should be forfeited to the Township, or if escheatment to the State of Michigan is required.

We suggest that the Township consider adopting the budget using the general appropriations act resolution. A copy can be found on the MTA's website. The general appropriations act addresses the disbursements that are authorized by the Township for prepayment.

Township Board
Waterloo Township
October 14, 2004
Page 3

We believe that implementation of these recommendations will provide Waterloo Township with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation. This report is intended solely for the information and use of the Township Board, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the opportunity to serve you.

Respectfully yours,

Dove & Hickey, P.L.C.